



# **USER'S GUIDE FOR NCUA'S FINANCIAL PERFORMANCE REPORT**

**NATIONAL CREDIT UNION ADMINISTRATION**

# NCUA - USER'S GUIDE FOR NCUA'S FINANCIAL PERFORMANCE REPORT

## NCUA-FPR - INTRODUCTION

The Financial Performance Report (FPR) is an analytical tool created for management and supervisory purposes. The yearend FPR is designed to provide a 5-year picture of the financial trends and operating results of the credit union. The midyear FPR portrays these trends for five 6-month intervals. The data contained in the report may be used by the credit union to identify key trends, analyze past performance, and set future goals.

FPRs are computer-generated reports prepared from data the credit union has submitted to NCUA for the previous 5 yearend periods (yearend FPR) or the previous 5 semi-annual periods (midyear FPR). Data is updated twice each year (June and December) from the Call Report, NCUA 5300. Data is presented in the form of ratios, percentages, and dollar amounts. FPRs also portray the credit union in relation to a credit union peer group of similar asset size.

## NCUA-FPR - PEER GROUPS

Peer group data is provided to show how the credit union performed in relation to a group of credit unions of similar asset size. Depending on the credit union's asset size, it is placed into one of the following peer groups:

### ASSETS

Less than \$500,000

\$500,000 - \$2,000,000

\$2,000,001 - \$10,000,000

\$10,000,001 - \$50,000,000

\$50,000,001 - \$100,000,000

Over \$100,000,000

The credit union's peer group is shown on each FPR.

Peer averages are computed by adding individual ratio values and dividing that sum by the number of credit unions in the peer group.

## NCUA-FPR - PERCENTILE RANKINGS (Yearend FPR Only)

Percentile rankings are used to show where the credit union stands in relation to its peers in key areas of financial performance.

In arriving at the percentile ranking for a particular key ratio, the corresponding ratios for all credit unions in the peer group are arranged in order from the *best* to the *worst* value. A percentile ranking from 100 (best) to 1 (worst) is assigned to each ratio depending on its position. All credit unions having the same ratio value are assigned the same percentile ranking. As can be seen from this discussion, the percentile ranking assigned to the credit union's ratio is a measure of the relative standing of that ratio in the entire range of ratio values.

*A high or low percentile ranking does not automatically imply good or bad, Satisfactory or unsatisfactory. However, when reviewed in relation to other available data, a conclusion can usually be reached as to the importance of a high or low percentile to the credit union's financial performance.*

## NCUA-FPR - ARRANGEMENT

The December FPR is divided into five sections:

Explanatory Letter, page 1;

Financial Comparison, page 2;

Graphic Display, pages 3, 4, 5 and 6;

5-Year Financial History, page 7; and

5-Year Ratio Analysis, page 8.

The June FPR mirrors the December FPR, except that the explanatory letter and financial comparison pages are omitted. Financial data is provided in 6-month intervals rather than the annual intervals of the yearend report. Ratios and percentages are annualized where appropriate.

Percentile rankings are not provided in the June FPR because many credit unions do not accrue major expense items and dividends on their income and expense statement. This may distort a number of the key ratios used in the yearend FPR.

## NCUA-FPR - DESCRIPTION

A page-by-page description of the December FPR is given below. The discussion concerning the graphic display, financial history and ratio analysis pages can also be used as a general guide to the June FPR.

**Explanatory Letter, Page 1** The Explanatory Letter provides, in columns across the top, various information about the credit union, including its name and address, charter or certificate number, and peer group. This information should be reviewed for accuracy upon receipt of the report. Any error noted in the information should be brought to the attention of the appropriate NCUA regional office. It is particularly important that the correct peer group is displayed; if the credit union's peer group is incorrectly displayed, all of the peer data will be meaningless.

The narrative portion of page 1 contains a general description of the report. Additionally, page 1 identifies key performance areas for which the credit union was assigned a percentile ranking of 25 or less for the current year. The purpose of "flagging" low performance areas is to emphasize possible areas of concern that may be in need of further analysis.

**Financial Comparison, Page 2** The Financial Comparison lists 11 key ratios for the current year, measuring capital adequacy, asset quality, earnings and liquidity. *These are the same key ratios used by examiners to evaluate the credit union's performance under the CAMEL Rating System.* Page 2 also displays the percentile ranking and peer group average computed for each of the 11 key ratios.

An explanation of the 11 key ratios follows. The 11 key ratios are listed in the same order as they appear in the Financial Comparison.

<u>Ratio Designation</u>	<u>Method of Computation* and Comment</u>
Capital	<p>Capital divided by Total Assets.</p> <p>Comment: This is a <u>capital adequacy</u> ratio that measures capital in relation to total assets. Capital provides a cushion to absorb losses; its rate of growth should equal or exceed the rate of growth in total assets. The rate of growth in total assets and capital are shown on page 7 of the FPR.</p>
Net Capital	<p>Capital (less estimated losses) divided by Total Assets.</p> <p>Comment: This is a <u>capital adequacy</u> ratio that measures capital (less estimated losses) in relation to total assets. A low ratio value in relation to the peer group average indicates limited ability to withstand future losses and/or economic downturns.</p>
Delinquency	<p>Delinquent Loans divided by Total Loans.</p> <p>Comment: This is an <u>asset quality</u> ratio that measures delinquent loans in relation to total loans. This ratio is an indicator of delinquency control and potential loan losses. A high ratio value in relation to the peer group average indicates that the credit union could incur significant loan losses.</p>
Charge-Offs	<p>Net Charge-Offs divided by Average Loans.</p> <p>Comment: This is an <u>asset quality</u> ratio that measures net charge-offs in relation to average loans. Charge-offs are an important indicator of the effectiveness of lending and collection practices. A high ratio value in relation to the peer group average indicates that large loan losses have been realized. Loan losses reduce the credit union's capital.</p>
Non-Earning Assets	<p>Non-Earning Assets divided by Total Assets</p> <p>Comment: This is an <u>asset quality</u> ratio that measures non-earning assets in relation to total assets. A high ratio value in relation to the peer group average may indicate that the credit union is not maximizing its asset/earnings potential.</p>
Expenses	<p>Operating Expenses (excluding Provision for Loan Losses and Interest Expense) divided by Average Assets.</p> <p>Comment: This is an <u>earnings</u> ratio that measures operating expenses (excluding loan loss and interest expense) in relation to average assets. A high ratio value in relation to the peer group average may indicate that operating expenses are not being adequately controlled.</p>
Net Income Before Transfers	<p>Net Income (before statutory reserve transfers) divided by Average Assets.</p> <p>Comment: This is an <u>earnings</u> ratio that measures net income (before statutory reserve transfers) in relation to average assets. This ratio is the initial indicator of profitability. A positive ratio value shows that earnings were sufficient to cover the credit union's operating expenses and cost of funds.</p>
Net Income After Transfers	<p>Net Income (after statutory reserve transfers) divided by Average Assets.</p>

	<p>Comment: This is an <u>earnings</u> ratio that measures net income (after statutory reserve transfers) in relation to average assets. A stable or rising ratio value indicates a stable or rising rate of return on average assets. A negative ratio value indicates that the credit union had a net loss.</p>
Long-Term Assets	<p>Long-term assets divided by Total Assets.</p> <p>Comment: This is a <u>liquidity ratio</u> that measures long-term assets in relation to total assets. This ratio is the initial indicator of liquidity. A high ratio value in relation to the peer group average indicates that potential liquidity and/or earnings problems may exist.</p>
Net Long-Term Assets	<p>Long-term assets adjusted for Real Estate Loans divided by Total Assets.</p> <p>Comment: This ratio is a liquidity ratio that measures long-term assets (excluding real estate loans with maturities under 3 years) to total assets. A high ratio value may indicate that the credit union has a limited capacity to meet the credit needs of its members, and may be indicative of other potential liquidity and earnings problems.</p>
Estimated Liquid Assets minus Short Term Liabilities	<p>Short-Term Cash and Shares divided by total Assets Availability (excluding Reverse Repurchase Agreements).</p> <p>Comment: This is a liquidity ratio that measures the extent to which assets and liabilities are matched by maturity. A high absolute ratio value in relation to the peer group average may indicate excessive vulnerability to interest rate fluctuations.</p>

\* More information about the key ratios and their components appears in the discussion of the 5-Year Ratio Analysis.

**Graphic Display, Pages 3, 4, 5 and 6.** Pages 3 through 6 contain graphic displays of the 11 key financial ratios for the current year and previous 4 years. (In the June FPR, the 11 key ratios are shown for the current cycle and 4 previous semi-annual periods.) The bar charts accompanying the graphs display the distribution of the corresponding peer group ratio values for the current year. The peer group's minimum and maximum ratio values can be identified as the endpoints for each bar chart's scale, unless the minimum value is negative, in which case the scale begins at 0. The peer average is identified by a single vertical line, and the middle 50 percent of the distribution is illustrated by a series of shaded vertical lines. The ratio values for the endpoints of the middle 50 percent of the peer distribution appear directly above the shaded vertical markings. The middle 50 percent of the peer group distribution is calculated by ranking the ratio values for all credit unions within the peer group, determining the midpoint (median) of the ranked ratio values, and identifying the ratio values for the credit unions whose relative position within the ranking fall 25 percent above and below the midpoint. The credit union's relative position within the peer group distribution is indicated by an asterisk (\*).

The Graphic Display provides a quick, visual review of key financial trends, and can be used to monitor the credit union's progress in various areas of financial performance. The Graphic Display also provides a comparison of the credit union's performance in relation to its peers for all key ratios.

The significance of the financial ratios which appear in the Graphic Display is explained in the narrative which follows each graph. For further information about these ratios, see the discussion regarding the 5-Year Ratio Analysis.

**5-Year Financial History, Page 7** The 5-Year Financial History contains balance sheet and income and expense data for the current year and previous 4 years. (In the June FPR, the data items are shown for the current and 4 previous semi-annual periods.) For certain key data items, the annual percentage changes are displayed to the right of the item.

The 5-Year Financial History is particularly useful for reviewing trends and can also be used in monitoring the credit union's progress in various areas of financial performance. For example, if the credit union's performance has been weak in the area of loan growth, this may indicate that promotional efforts need to be increased in order to achieve a specified percentage of loan growth in future periods. The progress made toward achieving the growth could then be monitored by reviewing monthly loan growth, as well as the percent change data displayed for loans in subsequent FPRs.

**5-Year Ratio Analysis, Page 8.** The 5-Year Ratio Analysis displays six groups of financial ratios for the current and previous 4 years. (In the June FPR, the ratios are displayed for the current cycle and preceding 4 semi-annual periods.) The ratios are grouped in relation to major areas of the CAMEL Rating System (capital adequacy, asset quality, earnings, liquidity), productivity and other ratios. The 5-Year Ratio Analysis also displays the corresponding peer group ratios (peer averages for the current year) and the difference between the credit union's ratio values and the corresponding peer group ratio values for the current year.

The 5-Year Ratio Analysis allows in-depth analysis of the first seven pages of the report. Also, by carefully reviewing the peer data shown on page 8 and other available data, the credit union should be able to judge the importance (positive or negative impact on the credit union) of any particular ratio value which varies significantly from the peer group's ratio.

As an example, assume that the credit union's Delinquent Loan Ratio (appears in the asset quality grouping) is significantly higher than the peer group's Delinquent Loan Ratio. This condition, coupled with a high Charge-Off Ratio in relation to the peer group and/or in relation to the credit union's past performance, could cause the board of directors to conclude that lending policies and/or collection practices need to be revised. In this example, the credit union's unfavorable comparison with the peer group indicates a negative impact on the credit union when reviewed in relation to other available information (charge-off data). ***The important point to remember is that peer comparisons must be considered in relation to other available data, including any factors unique to the credit union, before any definite conclusions can be reached***

Listed below are descriptions of the ratios used in the 5-Year Ratio Analysis. Commonly used components of some of the ratios are defined first in order to simplify the descriptions. An asterisk (\*) placed before a ratio indicates that it is one of the 11 key ratios used in the Financial Comparison, page 2.

#### **NCUA-FPR - RATIO COMPONENTS:**

**AVERAGE ASSETS** For December: total assets for the current yearend plus total assets for the prior yearend divided by 2. For June: total assets for the current midyear period plus total assets for the prior yearend divided by 2.

**AVERAGE LOANS** For December: total loans for the current yearend plus total loans for the prior yearend divided by 2. For June: total loans for the current midyear period plus total loans for the prior yearend divided by 2.

**BORROWINGS** The total of promissory notes, reverse repurchase agreements, other notes payable, and interest on notes payable.

**CAPITAL** The total of the Allowance for Loan Losses, Allowance for Investment Losses, Regular/Statutory Reserve, Investment Valuation Reserve (state-chartered credit unions only), Other Reserves, and Undivided Earnings. Note: in the June FPR, the undistributed Net Income of credit unions not closing their books are included in the calculation of capital.

**ESTIMATED LOAN REPAYMENTS** The prior period loan balance plus the total amount of loans granted during the current period less the current period loan balance. When calculating this ratio

component for June figures, it is necessary to annualize the amount of loans granted during the period. This is accomplished by multiplying the amount of loans granted by 2.

ESTIMATED LOSSES The sum of 50 percent of loans 6 to less than 12 months delinquent and 75 percent of loans 12 or more months delinquent.

EQUIVALENT FULL-TIME EMPLOYEES Number of part-time employees divided by 2 plus the number of full-time employees.

NET TRANSFER TO STATUTORY RESERVES The required transfer to statutory reserves less the Provision for Loan Losses. If the Provision for Loan Losses is negative, the net transfer to statutory reserves is equal to the required transfer to statutory reserves. If the Provision for Loan Losses is greater than the required transfer to statutory reserves, the net transfer to statutory reserves is 0.

SAVINGS The total of all shares and deposits.

#### **NCUA-FPR - CAPITAL ADEQUACY:**

\* CAPITAL/TOTAL ASSETS Capital divided by total assets.

\* NET CAPITAL (ESTIMATED)/TOTAL ASSETS Capital (less estimated losses) divided by total assets.

CAPITAL AND SAVINGS/TOTAL SAVINGS The sum of capital and savings divided by total savings.

DELINQUENT LOANS/CAPITAL All loans 2 months or more delinquent divided by capital.

SOLVENCY EVALUATION (ESTIMATED) . Total assets plus the Allowance for Loan Losses, less liabilities and estimated losses divided by total savings.

CLASSIFIED ASSETS (ESTIMATED)/CAPITAL Estimated losses divided by capital.

CAPITAL/TOTAL LOANS Capital divided by total loans.

DELINQUENT LOANS/STATUTORY RESERVES All loans 2 months or more delinquent divided by the Regular/Statutory Reserve plus the Allowance for Loan Losses.

DELINQUENT LOANS/ALLOWANCE FOR LOAN LOSSES All loans 2 months or more delinquent divided by the Allowance for Loan Losses.

#### **NCUA-FPR - ASSET QUALITY:**

\* DELINQUENT LOANS/TOTAL LOANS All loans 2 months or more delinquent divided by total loans.

\* NET CHARGE-OFFS/AVERAGE LOANS Total amount of loans charged-off during the year less all recoveries on charged-off loans during the year divided by average loans. For June figures, this ratio is annualized by multiplying the result by 2.

\* NON-EARNING ASSETS/TOTAL ASSETS The sum of land and building, other fixed assets, other real estate owned, and other assets divided by total assets.

CLASSIFIED ASSETS (ESTIMATED)/TOTAL ASSETS Estimated losses divided by total assets.

PERCENT CHANGE IN DELINQUENT LOANS All loans 2 months or more delinquent (current period) minus all loans 2 months or more delinquent (previous period) divided by all loans 2 months or more delinquent (previous period). In the December FPR, the *previous period* is defined as the previous yearend cycle. In the June FPR *previous period* is defined as the preceding 6- month interval.

FIXED ASSETS/TOTAL ASSETS The sum of land and building and other fixed assets divided by total assets.

## **NCUA-FPR - EARNINGS:**

GROSS INCOME/AVERAGE ASSETS Gross income divided by average assets. For June figures, this ratio is annualized by multiplying the result by 2.

COST OF FUNDS/AVERAGE ASSETS. Interest on borrowed money from all sources plus dividends/interest on deposits divided by average assets. For June figures, this ratio is annualized by multiplying the result by 2.

\* OPERATING EXPENSES/AVERAGE ASSETS Total operating expenses (excluding the provision for loan losses and interest on borrowed funds from all sources) divided by average assets. For June figures, this ratio is annualized by multiplying the result by 2.

\* NET INCOME BEFORE STATUTORY RESERVE TRANSFERS/AVERAGE ASSETS Net income (loss) after dividends/interest on deposits but before the net transfer to statutory reserves divided by average assets. For June figures, this ratio is annualized by multiplying the result by 2.

\* NET INCOME AFTER TRANSFERS TO STATUTORY RESERVES/AVERAGE ASSETS Net income (loss) after dividends/interest on deposits and net transfers to statutory reserves divided by average assets. For June figures, this ratio is annualized by multiplying the result by 2.

OPERATING EXPENSES/GROSS INCOME Total operating expenses (excluding the provision for loan losses and interest on borrowed funds from all sources) divided by gross income.

EARNING ASSETS/TOTAL SAVINGS AND BORROWINGS Total assets (less land and building, other fixed assets, other real estate owned, and other assets) divided by total savings and borrowings.

## **NCUA-FPR - LIQUIDITY:**

BORROWINGS/TOTAL SAVINGS AND CAPITAL Borrowings divided by total savings and capital.

REGULAR SHARES/TOTAL SAVINGS AND BORROWINGS Regular shares divided by total savings and borrowings.

\* LONG-TERM ASSETS/TOTAL ASSETS Real estate loans, commercial loans, agricultural loans, investments with remaining maturities of more than 3 years, land and building and other fixed assets divided by total assets. Information regarding investment maturities greater than 3 years was not requested on the Call Report until 1988. Therefore, this ratio is only calculated for 1988 and subsequent years.

\* NET LONG-TERM ASSETS/TOTAL ASSETS Real estate loans which will not refinance, reprise or mature within 3 years, commercial loans, agricultural loans, investments with remaining maturities of more than 3 years, land and building and other fixed assets divided by total assets. The real estate liquidity information necessary for the calculation of this ratio was not requested on the Call Report prior to 1990. Therefore, this ratio will only be calculated for 1990 and subsequent periods.

TOTAL LOANS/TOTAL SAVINGS Total loans divided by total savings.

\* ESTIMATED SHORT-TERM CASH AVAILABILITY Liquid assets (cash plus investments with remaining maturities less than 1 year) plus estimated loan repayments less short-term shares (share certificates with remaining maturities less than 1 year, IRA/Keogh and retirement accounts with remaining maturities less than 1 year and 25 percent of all other types of savings) less notes payable (promissory notes, reverse repurchase agreements and other notes and interest payable) divided by the net of total assets less reverse repurchase agreements.

LONG-TERM INVESTMENTS/TOTAL ASSETS Investments with remaining maturities of more than 1 year divided by total assets.



ESTIMATED LOAN MATURITY IN MONTHS Loans outstanding at the end of the previous year divided by the amount of principal payments made during the current period with the result multiplied by either 12 (for December) or 6 (for June). The amount of principal payments made during the current period is equal to loans outstanding at the end of the prior year plus loans granted during the current period minus the loans outstanding for the current period.

#### **NCUA-FPR - PRODUCTIVITY:**

MEMBERS/POTENTIAL MEMBERS Members divided by potential members.

BORROWERS/MEMBERS Number of loans divided by number of current members.

MEMBERS/FULL-TIME EMPLOYEES Number of current members divided by equivalent full-time employees.

AVERAGE SAVINGS PER MEMBER Total savings divided by number of current members.

AVERAGE LOAN BALANCE Total loans divided by number of loans.

SALARY & BENEFITS/FULL-TIME EMPLOYEES Employee compensation and benefits divided by equivalent full-time employees.

#### **NCUA-FPR - OTHER RATIOS:**

TOTAL LOANS/TOTAL ASSETS Total loans divided by total assets.

MARKET GROWTH (SHARES) Total savings (current period) minus total savings (previous period) divided by total savings (previous period). In the December FPR, the previous period is defined as the previous yearend cycle. In the June FPR, previous period is defined as the preceding 6-month interval.

CAPITAL GROWTH Total capital (current period) minus total capital (previous period) divided by total capital (previous period). In the December FPR, the previous period is defined as the previous yearend cycle. In the June FPR previous period is defined as the preceding 6-month interval.

LOAN GROWTH Total loans (current period) minus total loans (previous period) divided by total loans (previous period). In the December FPR, the previous period is defined as the previous yearend cycle. In the June FPR, previous period is defined as the preceding 6-month interval.

ASSET GROWTH Total assets (current period) minus total assets (previous period) divided by total assets (previous period). In the December FPR, the previous period is defined as the previous yearend cycle. In the June FPR, previous period is defined as the preceding 6-month interval.

#### **NCUA-FPR - ADDITIONAL INFORMATION**

Additional information about the FPR and this User's Guide may be obtained from the appropriate NCUA regional office.

### **NCUA-FPR - NATIONAL CREDIT UNION ADMINISTRATION REGIONAL OFFICES**

#### **Region I (Albany)**

National Credit Union Administration  
Region I (Albany)  
9 Washington Square

Washington Avenue Extension  
Albany, NY 12205  
(518) 472-4554

Connecticut  
Maine  
Massachusetts  
New Hampshire  
New York  
Puerto Rico  
Rhode Island  
Vermont  
Virgin Islands

**Region II (Capital)**

National Credit Union Administration  
Region II (Capital)  
1776 G Street, N.W.  
Suite 800  
Washington, D.C. 20006  
(202) 682-1900

Delaware  
District of Columbia  
Maryland  
New Jersey  
Pennsylvania  
Virginia  
West Virginia

**Region III (Atlanta)**

National Credit Union Administration  
Region III (Atlanta)  
7000 Central Parkway  
Suite 1600  
Atlanta, GA 30328  
(404) 396-4042

Alabama  
Arkansas  
Florida  
Georgia  
Kentucky  
Louisiana  
Mississippi  
North Carolina  
South Carolina  
Tennessee

**Region IV (Chicago)**

National Credit Union Administration  
Region IV (Chicago)

300 Park Boulevard  
Suite 155  
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Illinois  
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Michigan  
Missouri  
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**Region V (Austin)**

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Oklahoma  
South Dakota  
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**Region VI (Pacific)**

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